

VILLAGE OF ATHENS  
Calhoun County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended February 28, 2013

VILLAGE OF ATHENS  
Calhoun County, Michigan

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## INDEPENDENT AUDITOR'S REPORT

March 22, 2013

To the Village Council  
Village of Athens  
Calhoun County, Michigan

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of Village of Athens, Calhoun County, Michigan as of and for the year ended February 28, 2013, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Athens' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Village of Athens, Calhoun County, Michigan as of February 28, 2013, and the respective changes in financial position, and cash flows, where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

VILLAGE OF ATHENS  
Calhoun County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended February 28, 2013

The Management's Discussion and Analysis report of the Village of Athens covers the Village's financial performance during the year ended February 28, 2013.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at February 28, 2013, totaled \$822,137.87 for governmental activities and \$818,524.32 for business-type activities. Overall total capital assets increased by \$38,832.91.

Overall revenues were \$435,364.97 from governmental activities and \$210,462.41 from business-type activities. Governmental activities had a \$21,105.94 increase in net assets. Business-type activities had an increase in net assets of \$112,577.07.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental activities and business-type activities. These and include the General Fund, the Major Street Fund, the Local Street Fund, the Cemetery Perpetual Care Fund, and the Water Fund.

VILLAGE OF ATHENS  
Calhoun County, Michigan

**CONDENSED FINANCIAL INFORMATION**  
February 28, 2013

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Current Assets	234 178	246 735	307 868	229 044	542 046	475 779
Restricted Assets	366 002	337 675	204 651	164 784	570 653	502 459
Capital Assets	<u>228 031</u>	<u>219 915</u>	<u>318 005</u>	<u>336 119</u>	<u>546 036</u>	<u>556 034</u>
Total Assets	<u>828 211</u>	<u>804 325</u>	<u>830 524</u>	<u>729 947</u>	<u>1 658 735</u>	<u>1 534 272</u>
Current Liabilities	6 073	3 293	-	-	6 073	3 293
Non-current Liabilities	<u>-</u>	<u>-</u>	<u>12 000</u>	<u>24 000</u>	<u>12 000</u>	<u>24 000</u>
Total Liabilities	<u>6 073</u>	<u>3 293</u>	<u>12 000</u>	<u>24 000</u>	<u>18 073</u>	<u>27 293</u>
Net Assets:						
Invested in Capital						
Assets	228 031	219 915	306 005	312 119	534 036	532 034
Restricted	366 002	337 675	204 651	164 784	570 653	502 459
Unrestricted	<u>228 105</u>	<u>243 442</u>	<u>307 868</u>	<u>229 044</u>	<u>535 973</u>	<u>472 486</u>
Total Net Assets	<u>822 138</u>	<u>801 032</u>	<u>818 524</u>	<u>705 947</u>	<u>1 640 662</u>	<u>1 506 979</u>
	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Program Revenues:						
Fees and Charges for Services	28 021	23 828	155 621	157 760	183 642	181 588
General Revenues:						
Property Taxes	166 207	161 702	52 181	50 823	218 388	212 525
State Revenue Sharing	169 507	169 574	-	-	169 507	169 574
Interest	2 835	2 468	2 365	1 344	5 200	3 812
Miscellaneous	<u>68 795</u>	<u>59 311</u>	<u>295</u>	<u>24 077</u>	<u>69 090</u>	<u>83 388</u>
Total Revenues	<u>435 365</u>	<u>416 883</u>	<u>210 462</u>	<u>234 004</u>	<u>645 827</u>	<u>650 887</u>
Program Expenses:						
General Government and Administration	189 565	169 588	-	-	189 565	169 588
Public Works	82 857	239 024	-	-	82 857	239 024
Culture and recreation	1 127	1 127	-	-	1 127	1 127
Water	-	-	97 885	123 871	97 885	123 871
Other	<u>140 710</u>	<u>150 481</u>	<u>-</u>	<u>-</u>	<u>140 710</u>	<u>150 481</u>
Total Expenses	<u>414 259</u>	<u>560 220</u>	<u>97 885</u>	<u>123 871</u>	<u>512 144</u>	<u>684 091</u>
Change in Net Assets	21 106	(143 337)	112 577	110 133	133 683	(33 204)
Net Assets, March 1	<u>801 032</u>	<u>944 369</u>	<u>705 947</u>	<u>595 814</u>	<u>1 506 979</u>	<u>1 540 183</u>
Net Assets, February 28	<u>822 138</u>	<u>801 032</u>	<u>818 524</u>	<u>705 947</u>	<u>1 640 662</u>	<u>1 506 979</u>

VILLAGE OF ATHENS  
Calhoun County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended February 28, 2013

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

Governmental Funds: Some of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, the Major Street Fund, the Local Street Fund, and the Cemetery Perpetual Care Fund.

Business Type Funds: The Village has a Water Fund which includes the activity of providing water to Village residents.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Our cash position in both the governmental and business-type activities remains strong.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund had a decrease in fund balance of \$15,336.52. The Major Street Fund had an increase in fund balance of \$29,947.58. The Local Street Fund had an decrease in fund balance of \$506.25. The Cemetery Perpetual Care Fund had a decrease in fund balance of \$1,114.95.

The Water Fund had an increase in net assets of \$112,577.07.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$24,407.91 in capital assets.  
The Village's governmental activities paid \$0 of principal on long-term debt.  
The Village's business-type activities invested \$14,425.00 in capital assets.  
The Village's business-type activities paid \$12,000.00 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report please contact the Village Clerk or Village Treasurer.

VILLAGE OF ATHENS  
Calhoun County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

February 28, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash in bank	193 917 48	274 845 11	468 762 59
Cash on hand	250 00	-	250 00
Internal balances	(1 617 83)	1 617 83	-
Account receivable	-	7 007 89	7 007 89
Due from State of Michigan	13 939 69	-	13 939 69
Taxes receivable	27 688 61	-	27 688 61
Inventory	-	24 397 13	24 397 13
Total Current Assets	<u>234 177 95</u>	<u>307 867 96</u>	<u>542 045 91</u>
RESTRICTED ASSETS:			
Cash in bank	366 001 69	196 044 32	562 046 01
Taxes receivable	-	8 606 86	8 606 86
Total Restricted Assets	<u>366 001 69</u>	<u>204 651 18</u>	<u>570 652 87</u>
NON-CURRENT ASSETS:			
Capital Assets	347 870 45	1 005 768 05	1 353 638 50
Less: Accumulated Depreciation	<u>(119 839 06)</u>	<u>(687 762 87)</u>	<u>(807 601 93)</u>
Total Non-current Assets	<u>228 031 39</u>	<u>318 005 18</u>	<u>546 036 57</u>
TOTAL ASSETS	<u><u>828 211 03</u></u>	<u><u>830 524 32</u></u>	<u><u>1 658 735 35</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	<u>6 073 16</u>	<u>-</u>	<u>6 073 16</u>
Total Current Liabilities	<u>6 073 16</u>	<u>-</u>	<u>6 073 16</u>
NON-CURRENT LIABILITIES:			
Contract payable	<u>-</u>	<u>12 000 00</u>	<u>12 000 00</u>
Total Non-current Liabilities	<u>-</u>	<u>12 000 00</u>	<u>12 000 00</u>
Total Liabilities	<u>6 073 16</u>	<u>12 000 00</u>	<u>18 073 16</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	228 031 39	306 005 18	534 036 57
Restricted	366 001 69	204 651 18	570 652 87
Unrestricted	<u>228 104 79</u>	<u>307 867 96</u>	<u>535 972 75</u>
Total Net Assets	<u>822 137 87</u>	<u>818 524 32</u>	<u>1 640 662 19</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>828 211 03</u></u>	<u><u>830 524 32</u></u>	<u><u>1 658 735 35</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year ended February 28, 2013

		Program Revenue	Governmental Activities Net (Expense) Revenue and Changes in Net Assets	Business Type Activities Net (Expense) Revenue and Changes in Net Assets	Total Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>			
<b>FUNCTIONS/PROGRAMS</b>					
Governmental Activities:					
Legislative	54 889 55	-	(54 889 55)	-	(54 889 55)
General government	134 675 65	28 021 06	(106 654 59)	-	(106 654 59)
Public works	82 857 26	-	(82 857 26)	-	(82 857 26)
Culture and recreation	1 126 90	-	(1 126 90)	-	(1 126 90)
Other	140 709 67	-	(140 709 67)	-	(140 709 67)
Total Governmental Activities	<u>414 259 03</u>	<u>28 021 06</u>	<u>(386 237 97)</u>	<u>-</u>	<u>(386 237 97)</u>
Business Type Activities:					
Water	<u>97 885 34</u>	<u>155 620 64</u>	<u>-</u>	<u>57 735 30</u>	<u>57 735 30</u>
Total Business Type Activities	<u>97 885 34</u>	<u>155 620 64</u>	<u>-</u>	<u>57 735 30</u>	<u>57 735 30</u>
Total Government	<u>512 144 37</u>	<u>183 641 70</u>	<u>(386 237 97)</u>	<u>57 735 30</u>	<u>(328 502 67)</u>
General Revenues:					
Property taxes			166 207 22	52 180 83	218 388 05
State revenue sharing			169 507 13	-	169 507 13
Interest			2 834 39	2 365 43	5 199 82
Miscellaneous			<u>68 795 17</u>	<u>295 51</u>	<u>69 090 68</u>
Total General Revenues			<u>407 343 91</u>	<u>54 841 77</u>	<u>462 185 68</u>
Change in net assets			21 105 94	112 577 07	133 683 01
Net assets, beginning of year			<u>801 031 93</u>	<u>705 947 25</u>	<u>1 506 979 18</u>
Net Assets, End of Year			<u>822 137 87</u>	<u>818 524 32</u>	<u>1 640 662 19</u>

The accompanying notes are an integral part of these financial statements.



VILLAGE OF ATHENS  
Calhoun County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
February 28, 2013

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Non-Major Cemetery Perpetual Care</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	207 857 17	234 411 53	95 964 68	21 685 79	559 919 17
Cash on hand	250 00	-	-	-	250 00
Due from State of Michigan	-	9 833 11	4 106 58	-	13 939 69
Taxes receivable	<u>27 688 61</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27 688 61</u>
Total Assets	<u>235 795 78</u>	<u>244 244 64</u>	<u>100 071 26</u>	<u>21 685 79</u>	<u>601 797 47</u>
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Due to other funds	1 617 83	-	-	-	1 617 83
Accounts payable	<u>6 073 16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6 073 16</u>
Total liabilities	<u>7 690 99</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7 690 99</u>
Fund equity:					
Fund balances:					
Restricted	-	244 244 64	100 071 26	21 685 79	366 001 69
Unassigned	<u>228 104 79</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228 104 79</u>
Total fund equity	<u>228 104 79</u>	<u>244 244 64</u>	<u>100 071 26</u>	<u>21 685 79</u>	<u>594 106 48</u>
Total Liabilities and Fund Equity	<u>235 795 78</u>	<u>244 244 64</u>	<u>100 071 26</u>	<u>21 685 79</u>	<u>601 797 47</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
February 28, 2013

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	594 106 48
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	347 870 45
Accumulated depreciation	<u>(119 839 06)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>822 137 87</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended February 28, 2013

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Non – Major Cemetery Perpetual Care</u>	<u>Total</u>
Revenues:					
Property taxes	166 207 22	-	-	-	166 207 22
State revenue sharing	93 828 55	53 385 00	22 293 58	-	169 507 13
Licenses and permits	19 345 39	-	-	-	19 345 39
Charges for services:					
Cemetery	-	-	-	6 500 00	6 500 00
Tax collection	2 175 67	-	-	-	2 175 67
Interest	1 026 01	1 327 76	459 30	21 32	2 834 39
Miscellaneous	67 820 17	975 00	-	-	68 795 17
Total revenues	<u>350 403 01</u>	<u>55 687 76</u>	<u>22 752 88</u>	<u>6 521 32</u>	<u>435 364 97</u>
Expenditures:					
Legislative:					
Village Council	54 889 55	-	-	-	54 889 55
General government:					
Clerk	2 366 05	-	-	-	2 366 05
Treasurer	3 438 45	-	-	-	3 438 45
Building and grounds	80 132 04	-	-	-	80 132 04
Town hall	36 726 08	-	-	-	36 726 08
Cemetery	-	-	-	7 636 27	7 636 27
Public works:					
Highways and streets	-	38 943 73	10 055 58	-	48 999 31
Street lighting	23 069 78	-	-	-	23 069 78
Other:					
Wages and fringe benefits	140 709 67	-	-	-	140 709 67
Capital outlay	24 407 91	-	-	-	24 407 91
Total expenditures	<u>365 739 53</u>	<u>38 943 73</u>	<u>10 055 58</u>	<u>7 636 27</u>	<u>422 375 11</u>
Excess (deficiency) of revenues over expenditures	<u>(15 336 52)</u>	<u>16 744 03</u>	<u>12 697 30</u>	<u>(1 114 95)</u>	<u>12 989 86</u>
Other financing sources (uses):					
Operating transfers in	-	13 203 55	-	-	13 203 55
Operating transfers out	-	-	(13 203 55)	-	(13 203 55)
Total other financing sources (uses)	<u>-</u>	<u>13 203 55</u>	<u>(13 203 55)</u>	<u>-</u>	<u>-</u>
Excess deficiency of revenues and other sources over expenditures and other uses	<u>(15 336 52)</u>	<u>29 947 58</u>	<u>(506 25)</u>	<u>(1 114 95)</u>	<u>12 989 86</u>
Fund balances, March 1, 2012	<u>243 441 31</u>	<u>214 297 06</u>	<u>100 577 51</u>	<u>22 800 74</u>	<u>581 116 62</u>
Fund Balances, February 28, 2013	<u>228 104 79</u>	<u>244 244 64</u>	<u>100 071 26</u>	<u>21 685 79</u>	<u>594 106 48</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended February 28, 2013

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 12 989 86

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(16 291 83)
Capital Outlay	<u>24 407 91</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 21 105 94

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

COMPARATIVE STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS – WATER FUND

February 28, 2012 and February 28, 2013

	<u>February 28, 2013</u>	<u>February 29, 2012</u>
ASSETS:		
CURRENT ASSETS:		
Cash in bank	274 845 11	239 139 46
Accounts receivable	7 007 89	6 136 88
Inventory	<u>24 397 13</u>	<u>24 221 08</u>
Total Current Assets	<u>306 250 13</u>	<u>269 497 42</u>
RESTRICTED ASSETS:		
Cash in bank	196 044 32	159 210 33
Taxes receivable	8 606 86	5 573 42
Due from other funds	<u>3 489 33</u>	<u>3 489 33</u>
Total Restricted Assets	<u>208 140 51</u>	<u>168 273 08</u>
NON-CURRENT ASSETS:		
Capital assets	1 005 768 05	991 343 05
Less: Accumulated depreciation	<u>(687 762 87)</u>	<u>(655 224 03)</u>
Total Non-current Assets	<u>318 005 18</u>	<u>336 119 02</u>
TOTAL ASSETS	<u><u>832 395 82</u></u>	<u><u>773 889 52</u></u>
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
CURRENT LIABILITIES:		
Due to other funds	<u>1 871 50</u>	<u>43 942 27</u>
Total Current Liabilities	<u>1 871 50</u>	<u>43 942 27</u>
NON-CURRENT LIABILITIES:		
Contract payable	<u>12 000 00</u>	<u>24 000 00</u>
Total Non-Current Liabilities	<u>12 000 00</u>	<u>24 000 00</u>
Total Liabilities	<u>13 871 50</u>	<u>67 942 27</u>
NET ASSETS:		
Invested in capital assets, net of related debt	306 005 18	312 119 02
Restricted	208 140 51	168 273 08
Unrestricted	<u>304 378 63</u>	<u>225 555 15</u>
Total Net Assets	<u>818 524 32</u>	<u>705 947 25</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>832 395 82</u></u>	<u><u>773 889 52</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –  
BUSINESS-TYPE FUNDS – WATER FUND

Year ended February 28, 2012 and February 28, 2013

	<u>Year Ended</u>	
	<u>February 28, 2013</u>	<u>February 29, 2012</u>
OPERATING REVENUES:		
Charges for services	155 620 64	157 760 36
Miscellaneous	<u>295 51</u>	<u>24 077 25</u>
Total Operating Revenues	<u>155 916 15</u>	<u>181 837 61</u>
OPERATING EXPENSES:		
Wages	27 290 02	18 942 27
Administration fees	-	-
Operating supplies	7 601 40	7 776 84
Professional services	5 275 90	3 459 09
Utilities	1 997 53	7 443 27
Repairs and maintenance	20 203 53	40 323 05
Miscellaneous	<u>1 778 12</u>	<u>13 030 21</u>
Total Operating Expenses	<u>64 146 50</u>	<u>90 974 73</u>
Operating Income (loss) before depreciation	91 769 65	90 862 88
Less: depreciation	<u>(32 538 84)</u>	<u>(31 096 34)</u>
Operating income (loss)	<u>59 230 81</u>	<u>59 766 54</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	2 365 43	1 343 72
Property taxes – debt	52 180 83	50 823 07
Interest expense	<u>(1 200 00)</u>	<u>(1 800 00)</u>
Total Non-operating Revenues (Expenses)	<u>53 346 26</u>	<u>50 366 79</u>
Change in net assets	112 577 07	110 133 33
Net assets, beginning of year	<u>705 947 25</u>	<u>595 813 92</u>
Net Assets, End of Year	<u><u>818 524 32</u></u>	<u><u>705 947 25</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

COMPARATIVE STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS – WATER FUND

Year ended February 28, 2012 and February 28, 2013

	<u>Year Ended</u>	
	<u>February 28, 2013</u>	<u>February 29, 2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	155 045 14	181 334 76
Cash payments to suppliers for goods and services	(36 856 48)	(72 032 46)
Cash payments to employees for services	<u>(27 290 02)</u>	<u>(18 942 27)</u>
Net cash provided (used) by operating activities	<u>90 898 64</u>	<u>90 360 03</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	(14 425 00)	-
Principal paid on long-term debt	(12 000 00)	(12 000 00)
Interest expense on long-term debt	(1 200 00)	(1 800 00)
Property taxes – debt	52 180 83	50 823 07
(Increase) decrease in taxes receivable	(3 033 44)	1 898 65
(Acquisition) deletion of inventory	(176 05)	682 12
Increase (decrease) in due to other funds	<u>(42 070 77)</u>	<u>15 452 94</u>
Net cash provided (used) by capital and related financing activities	<u>(20 724 43)</u>	<u>55 056 78</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	<u>2 365 43</u>	<u>1 343 72</u>
Net cash provided (used) by investing activities	<u>2 365 43</u>	<u>1 343 72</u>
Net increase (decrease) in cash	72 539 64	146 760 53
Cash beginning of year	<u>398 349 79</u>	<u>251 589 26</u>
Cash End of Year	<u><u>470 889 43</u></u>	<u><u>398 349 79</u></u>
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income (loss) from operations	59 230 81	59 766 54
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	32 538 84	31 096 34
(Increase) decrease in receivables	<u>(871 01)</u>	<u>(502 85)</u>
Net Cash Provided (Used) in Operating Activities	<u><u>90 898 64</u></u>	<u><u>90 360 03</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ATHENS  
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2013

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Athens, Calhoun County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Athens. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.



VILLAGE OF ATHENS  
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2013

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Permanent Fund

The Cemetery Perpetual Care Fund is used to account for assets that are legally restricted.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

VILLAGE OF ATHENS  
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2013

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 15. The Village 2012 tax roll millage rate was 12.5259 mills, and the taxable value was \$17,428,838.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$2,500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	20-40 years
Furniture and equipment	10-25 years

Compensated Absences (Vacation and Sick Leave)

The Village does not have any accrued compensated absences.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

- Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.

The proposed budgets include expenditures as well as the methods of financing them.

VILLAGE OF ATHENS  
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2013

Note 2 – Budgets and Budgetary Accounting (continued)

Public hearings are held to obtain taxpayer comments.

The budgets are adopted at the activity level by a majority vote of the Village Council.

The budgets are adopted on the modified accrual basis of accounting.

The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.

The adopted budgets are used as a management control device during the year for all budgetary funds.

Budget appropriations lapse at the end of each fiscal year.

The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 033 277 56</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	250 000 00
Uninsured and Uncollateralized	<u>786 414 54</u>
Total Deposits	<u>1 036 414 54</u>

VILLAGE OF ATHENS  
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2013

Note 3 – Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Village manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The financial institution pooled funds and the mutual funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Village contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 4 – Contract Payable – Water

The Village of Athens has entered into a contract with Calhoun County to finance the construction of a water supply system. In accordance with the contract Calhoun County has issued bonds, as indicated below, secured by the contractual obligations of the Village to pay the installments due, plus interest 5% per annum. The Village is required to levy property tax each year, sufficient to pay the obligations when due. The schedule of repayment of the obligations is as follows:

<u>February 28</u>	<u>Annual Principal</u>	<u>Total Principal</u>
2014	12 000 00	<u>12 000 00</u>
<u>Total</u>		<u>\$ 12 000 00</u>

The contractual obligations are payable annually on December first, with interest payable 5% on June first and December first.

Note 5 – Pension Plan

The Village does not have a pension plan.

VILLAGE OF ATHENS  
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2013

Note 6 – Capital Assets

Capital asset activity of the Village's Governmental and Business-Type activities for the current year was as follows:

	Balance 3/1/12	Additions	Deletions	Balance 2/28/13
<u>Governmental Activities:</u>				
Land	8 000 00	-	-	8 000 00
Buildings	19 325 00	-	-	19 325 00
Equipment	296 137 54	24 407 91	-	320 545 45
Total	323 462 54	24 407 91	-	347 870 45
Accumulated Depreciation	(103 547 23)	(16 291 83)	-	(119 839 06)
Net Governmental Capital Assets	219 915 31	8 116 08	-	228 031 39
<u>Business-Type Activities:</u>				
Water Systems	991 343 05	14 425 00	-	1 005 768 05
Accumulated Depreciation	(655 224 03)	(32 538 84)	-	(687 762 87)
Net Business-Type Capital Assets	336 119 02	(18 113 84)	-	318 005 18

Note 7 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 8 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Building Permits

The Village does not issue building permits.

Note 10 – Water Fund Comparative Statements:

The Farmers Home Administration has required the Village to report its financial statements for the Water Fund on a comparative basis with the previous year.

Note 11 – Budget Variances

For the fiscal year ended February 28, 2013, Village expenditures exceeded the budgeted amounts in the following activities:

	Final Budget	Actual Expenditures	Budget Variances
General Fund Activity:			
Clerk	1 510 00	2 366 05	856 05
Treasurer	2 510 00	3 438 45	928 45
Wages and fringe benefits	139 000 00	140 709 67	1 709 67
Building and grounds	66 150 00	80 132 04	13 982 04
Town Hall	27 200 00	36 726 08	9 526 08
Capital outlay	24 000 00	24 407 91	407 91
Major Street Fund Activity:			
Highways and streets	27 400 00	38 943 73	11 543 73
Local Street Fund Activity:			
Transfers out	-	13 203 55	13 203 55

VILLAGE OF ATHENS  
Calhoun County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended February 28, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	172 300 00	172 300 00	166 207 22	(6 092 78)
Licenses and permits	20 800 00	20 800 00	19 345 39	(1 454 61)
State revenue sharing	90 000 00	90 000 00	93 828 55	3 828 55
Charges for services:				
Tax collection	250 00	250 00	2 175 67	1 925 67
Interest	1 700 00	1 700 00	1 026 01	(673 99)
Miscellaneous	<u>67 500 00</u>	<u>67 500 00</u>	<u>67 820 17</u>	<u>320 17</u>
Total revenues	<u>352 550 00</u>	<u>352 550 00</u>	<u>350 403 01</u>	<u>(2 146 99)</u>
Expenditures:				
Legislative:				
Village Council	63 160 00	63 160 00	54 889 55	(8 270 45)
General government:				
Clerk	1 510 00	1 510 00	2 366 05	856 05
Treasurer	2 510 00	2 510 00	3 438 45	928 45
Assessor	4 320 00	4 320 00	-	(4 320 00)
Building and grounds	66 150 00	66 150 00	80 132 04	13 982 04
Town Hall	27 200 00	27 200 00	36 726 08	9 526 08
Public works:				
Street lighting	24 700 00	24 700 00	23 069 78	(1 630 22)
Other:				
Wages and fringe benefits	139 000 00	139 000 00	140 709 67	1 709 67
Capital outlay	<u>24 000 00</u>	<u>24 000 00</u>	<u>24 407 91</u>	<u>407 91</u>
Total expenditures	<u>352 550 00</u>	<u>352 550 00</u>	<u>365 739 53</u>	<u>13 189 53</u>
Excess (deficiency) of revenues over expenditures	-	-	(15 336 52)	(15 336 52)
Fund balance, March 1, 2012	<u>-</u>	<u>-</u>	<u>243 441 31</u>	<u>243 441 31</u>
Fund Balance, February 28, 2013	<u>-</u>	<u>-</u>	<u>228 104 79</u>	<u>228 104 79</u>

VILLAGE OF ATHENS  
Calhoun County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND

Year ended February 28, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	53 000 00	53 000 00	53 385 00	385 00
Interest	1 200 00	1 200 00	1 327 76	127 76
Miscellaneous	-	-	975 00	975 00
Total revenues	<u>54 200 00</u>	<u>54 200 00</u>	<u>55 687 76</u>	<u>1 487 76</u>
Expenditures:				
Public works:				
Highways and streets	<u>27 400 00</u>	<u>27 400 00</u>	<u>38 943 73</u>	<u>11 543 73</u>
Total expenditures	<u>27 400 00</u>	<u>27 400 00</u>	<u>38 943 73</u>	<u>11 543 73</u>
Excess (deficiency) of revenues over expenditures	<u>26 800 00</u>	<u>26 800 00</u>	<u>16 744 03</u>	<u>(10 055 97)</u>
Other financing sources (uses):				
Transfers in	-	-	13 203 55	13 203 55
Transfers out	<u>(13 250 00)</u>	<u>(13 250 00)</u>	-	<u>(13 250 00)</u>
Total other financing sources (uses)	<u>(13 250 00)</u>	<u>(13 250 00)</u>	<u>13 203 55</u>	<u>26 453 55</u>
Excess (deficiency) of revenues: and other sources over expenditures and other uses	13 550 00	13 550 00	29 947 58	16 397 58
Fund balance, March 1, 2012	<u>-</u>	<u>-</u>	<u>214 297 06</u>	<u>214 297 06</u>
Fund Balance, February 28, 2013	<u><u>13 550 00</u></u>	<u><u>13 550 00</u></u>	<u><u>244 244 64</u></u>	<u><u>230 694 64</u></u>

VILLAGE OF ATHENS  
Calhoun County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND

Year ended February 28, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	22 000 00	22 000 00	22 293 58	293 58
Interest	<u>650 00</u>	<u>650 00</u>	<u>459 30</u>	<u>(190 70)</u>
Total revenues	<u>22 650 00</u>	<u>22 650 00</u>	<u>22 752 88</u>	<u>102 88</u>
Expenditures:				
Public works:				
Highways and streets	<u>38 200 00</u>	<u>38 200 00</u>	<u>10 055 58</u>	<u>(28 144 42)</u>
Total expenditures	<u>38 200 00</u>	<u>38 200 00</u>	<u>10 055 58</u>	<u>(28 144 42)</u>
Excess (deficiency) of revenues over expenditures	<u>(15 550 00)</u>	<u>(15 550 00)</u>	<u>12 697 30</u>	<u>28 247 30</u>
Other financing sources (uses):				
Operating transfers in	13 250 00	13 250 00	-	(13 250 00)
Operating transfers out	<u>-</u>	<u>-</u>	<u>(13 203 55)</u>	<u>13 203 55</u>
Total other financing sources (uses)	<u>13 250 00</u>	<u>13 250 00</u>	<u>(13 203 55)</u>	<u>(26 453 55)</u>
Excess (deficiencies) of revenues: and other sources over expenditures and other uses	<u>(2 300 00)</u>	<u>(2 300 00)</u>	<u>(506 25)</u>	<u>1 793 75</u>
Fund balance, March 1, 2012	<u>-</u>	<u>-</u>	<u>100 577 51</u>	<u>100 577 51</u>
Fund Balance, February 28, 2013	<u>(2 300 00)</u>	<u>(2 300 00)</u>	<u>100 071 26</u>	<u>102 371 26</u>



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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

March 22, 2013

To the Village Council  
Village of Athens  
Calhoun County, Michigan

We have audited the financial statements of the Village of Athens for the year ended February 28, 2013. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Port Austin in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council  
Village of Athens  
Calhoun County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

The Village's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Village cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Village Council Members understand these circumstances when performing their oversight responsibilities.

#### **PREPARATION OF FINANCIAL STATEMENTS**

Government units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the governmental unit rests with the governmental unit's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many governmental units to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal control.

To the Village Council  
Village of Athens  
Calhoun County, Michigan

**COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**  
(cont.)

PREPARATION OF FINANCIAL STATEMENTS (cont.)

The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the governmental unit's annual financial statements and notes to the financial statements in accordance with GAAP. The governmental unit relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We do not recommend any changes to this situation at this time and we communicate this as required by professional standards.

BUDGET VARIANCES

For the year ended February 28, 2013, the Village exceeded the amounts budgeted for multiple activities. We recommend that the Village amend the budget as necessary to comply with State law.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements for the year ended February 28, 2013.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants